

Message Text

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 02763 01 OF 05 070409Z
ACTION ARA-14

INFO OCT-01 ISO-00 MMO-01 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 AGRE-00 DOE-15 SOE-02 INT-05 /116 W
-----029735 070703Z /11

R 061430Z APR 78
FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC 219
INFO AMEMBASSY LIMA

LIMITED OFFICIAL USE SECTION 1 OF 5 LA PAZ 2763

E.O. 11652: N/A
TAGS: EFIN, PINT, BL, ECRP
SUBJECT: FURTHER ANALYSIS OF BOLIVIA'S BALANCE OF PAYMENTS
PROBLEMS CERP: 0102

REF: (A) LA PAZ 1101 (B) LA PAZ 1102 (C) STATE 46664 (D) CERP 0102

1. SUMMARY: IN RESPONSE TO REFTEL (C) THIS TELEGRAM CONTAINS FURTHER ANALYSIS OF BOLIVIA'S BALANCE OF PAYMENTS FOR 1978, INCLUDING THE GOB'S BOP TARGETS AND SUPPORTING FINANCIAL/BUDGET PLANS. THE EMBASSY WILL DISCUSS ADDITIOANL MEASURES WHICH COULD BE TAKEN TO IMRPOVE THE BALANCE OF PAYMENTS SITUATION IN A SUB-SEQUENT TELEGRAM.

2. THE GOB'S BALANCE OF PAYMENTS TARGETS INCLUDE AN OVERALL SURPLUS OF \$10 MILLION, A CURRENT ACCOUNT DEFICIT OF \$217 MILLION, AND HOLDING IMPORT GROWTH TO 5 PERCENT OVER 1977. THE FINANCIAL PROGRAM SUPPORTING THIS CALLS FOR A 23 PERCENT INCREASE IN NET LIQUIDITY IN THE ECONOMY, A 30 PERCENT INCREASE IN CENTRAL BANK CREDIT (A \$69 MILLION INCREASE) AND AN INFLATION RATE OF 17 PERCENT FOR THE YEAR. THE GROWTH IN GDP WOULD BE 5 PERCENT, LES THAN THE RATE OF
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 02763 01 OF 05 070409Z

RECENT YEARS, AND GOVERNMENT INVESTMENT WOULD BE REDUCED BY 14 PERCENT COMPARED TO 1977.

3. THE EMBASSY BELIEVES THAT THE FINANCIAL PLAN AND THE PUBLIC SECTOR BUDGET (WHICH PROGRAMS A \$437 MILLION DEFICIT) WILL NOT ALLOW ACHIEVEMENT OF THE BOP TARGETS. GIVEN A FIXED EXCHANGE RATE, THE 23 PERCENT INCREASE IN DOMESTIC LIQUIDITY

(AND THE 31 PERCENT INCREASE WHICH OCCURRED IN 1977) WILL IMPACT HEAVILY ON IMPORTS AND CAPITAL OUTFLOW. MOREOVER, THE FINANCIAL PROGRAM MAY NOT BE ACHIEVED, ESPECIALLY IF THE GOVERNMENT HAS TO GRANT ADDITIONAL WAGE INCREASES TO PUBLIC SECTOR EMPLOYEES BEYOND THOSE ALREADY BUDGETED. RATHER, WE FORECAST A \$300-400 MILLION BOP CURRENT ACCOUNT DEFICIT UNLESS STRONGER MEASURES ARE TAKEN TO HOLD DOWN IMPORTS, AND AN OVERALL BOP DEFICIT IN THE \$144-229 MILLION RANGE. BECAUSE ABOUT \$65 MILLION OF THE CURRENT BOP TARGET REMAINS UNFINANCED, AN ADDITIONAL \$200-285 MILLION IN EXTERNAL FINANCING NEEDS TO BE ARRANGED TO PREVENT A FALL IN FOREIGN EXCHANGE RESERVES. CENTRAL BANK OFFICIALS AT THE WORKING LEVEL AGREE WITH THE EMBASSY'S EVALUATION OF LIKELY CURRENT ACCOUNT AND CAPITAL ACCOUNT OUTCOMES AND INDICATE THAT THE CENTRAL BANK IS REEVALUATING THE BOP SITUATION.

4. A NUMBER OF HARD-TO-MEASURE FACTORS MAKE ACCURATE FORECASTING OF BOLIVIA'S BOP DIFFICULT, INCLUDING CONTRABAND IMPORTS, CONTRABAND EXPORTS-INCLUDING COCAINE-AND OFFSHORE PRIVATE BANK FINANCING, WHICH IS NOT SHOWN IN CENTRAL BANK FIGURES. CONSEQUENTLY, THE BEST OBJECTIVE INDICATORS FOR FOLLOWING THE BALANCE OF PAYMENTS ARE MOVEMENTS IN FOREIGN RESERVE FIGURES. CENTRAL BANK NET FOREIGN RESERVES FELL FROM \$216 MILLION AT THE END OF 1977 TO \$198 MILLION ON MARCH 20. RESERVES WERE MAINTAINED PARTLY BY A FEBRUARY DEPOSIT OF A \$25 MILLION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LA PAZ 02763 01 OF 05 070409Z

FOREIGN LOAN TO THE GOVERNMENT DEVELOPMENT CORPORATION FOMENTO. AT THE PRESENT RATE OF DECLINE IN RESERVES, THE ELECTED GOVERNMENT SCHEDULED TO TAKE OFFICE IN AUGUST 1978 WILL PROBABLY FACE SERIOUS BALANCE OF PAYMENTS PROBLEMS. END SUMMARY

TABLE I
BOLIVIA'S BALANCE OF PAYMENTS
(US\$ MILLIONS)

	A.	B.	C.	D.
	1977	1978	1978	1978
			EMB. ESTI-	EMB. ESTI-
			MATE.FINAN-	MATE.FINAN-
			GOB CIAL PLAN	ICIAL PLAN
	FINAL	TARGET	SUCCEEDS	NOT ACHIEVED
CURRENT ACCOUNT				
1. EXPORTS (FOB)	649	685	656	656
2. IMPORTS (FOB)	644	676	750	800
3. SERVICES	188	246	260	270
4. TRANSFERS	15	20	20	20

5. BALANCE -168 -217 -334 -394

CAPITAL ACCOUNT

1. LONG-TERM CAPITAL (NET)	335	402	340	340
2. SHORT-TERM CAPITAL (NET)	-121	-175	-150	-175
3. BALANCE	214	227	190	165
ERRORS AND OMISSIONS	-39	-	-	-
NET BALANCE	7	10	-144	-229

5. THE GOB'S BALANCE OF PAYMENTS TARGETS. THE GOB HAS FORMULATED BALANCE OF PAYMENTS TARGETS FOR 1978 AND A FINANCIAL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 LA PAZ 02763 01 OF 05 070409Z

PROGRAM DESIGNED TO SUPPORT THE BOP GOALS. THE BOP TARGETS (SHOWN IN COLUMN B OF TABLE I) WOULD TRY TO HOLD THE CURRENT ACCOUNT DEFICIT TO \$217 MILLION, A 29 PERCENT INCREASE OVER 1977, AND ACHIEVE A \$10 MILLION SURPLUS IN THE OVERALL BOP. IN CONTRAST, THE CURRENT ACCOUNT DEFICIT INCREASED BY 66 PERCENT FROM 1976 TO 1977, FROM \$101 MILLION TO \$168 MILLION. TO ACHIEVE THE 1978 CURRENT ACCOUNT GOAL IMPORTS WOULD HAVE TO BE HELD TO \$676 MILLION, ABOUT 5 PERCENT HIGHER THAN IN 1977.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 02763 02 OF 05 070407Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 AGRE-00 DOE-15 SOE-02 MMO-01 INT-05 /116 W
-----029683 070703Z /11

R 061430Z APR 78
FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC 220
INFO AMEMBASSY LIMA

LIMITED OFFICIAL USE SECTION 2 OF 5 LA PAZ 2763

IMPORTS INCREASED BY 15 PERCENT FROM 1976 TO 1977. THE CAPITAL ACCOUNT TARGETS PROVIDE FOR A SHORT-TERM CAPITAL OUTFLOW OF \$175 MILLION COMPARED TO AN ESTIMATED \$121 MILLION IN 1977, BUT A COMPENSATING NET LONG-TERM CAPITAL INFLOW OF \$402 MILLION COMPARED TO \$335 IN 1977.

6. TWO MAJOR QUESTIONS ABOUT THESE GOALS ARISE. FIRST, IS THE GOB FINANCIAL AND BUDGETARY PROGRAM ADEQUATE TO ACHIEVE THE BOP GOALS AND SECONDLY, ARE THE FINANCIAL AND BUDGETARY PROGRAMS THEMSELVES ACHIEVABLE?

A. PUBLIC SECTOR BUDGET. FORMALLY APPROVED ON MARCH 3, THE 1978 BUDGET PROVIDES FOR AN INCREASE IN OVERALL EXPENDITURES OF 19 PERCENT OVER 1977 AND A DEFICIT OF \$437 MILLION, OF WHICH 72 PERCENT IS PROGRAMMED TO BE FOREIGN FINANCED. THE CENTRAL BANK WILL FINANCE ROUGHLY \$100 MILLION (NET) OF THE DEFICIT THROUGH CREDITS TO THE CENTRAL GOVERNMENT AND OTHER PUBLIC SECTOR ENTITIES. THE APPROVED BUDGET PROVIDES FOR WAGE INCREASES TO THE JUDICIARY, WAR VETERANS AND THE POLICE. THE GOB EXPECTS STRONG WAGE PRESSURES FROM SCHOOL-TEACHERS AND MINERS AND A WAGE INCREASE FOR PUBLIC HEALTH EMPLOYEES HAS BEEN PROMOSSED BUT APPARENTLY NOT INCLUDED IN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 02763 02 OF 05 070407Z

THE BUDGET. THE GOB STRATEGY IS TO TRY TO DELAY WAGE INCREASES TO TEACHERS AND MINERS AS LONG AS POSSIBLE. THE LONGER THAN EXPECTED DURATION OF LABOR UNION ELECTIONS IS FACILITATING THIS BUT A CONCERTED UNION EFFORT, INCLUDING STRIKES, WOULD FORCE GRANTING WAGE INCREASES. THE GOB WOULD THEN HOPE TO HOLD SUCH WAGE INCREASES TO THE 30-40 PERCENT LEVEL. THIS WOULD ADD ABOUT \$50 MILLION TO THE OVERALL BUDGET AND RAISE THE DEFICIT TO \$487 MILLION. THE EMBASSY BELIEVES THAT DISBURSEMENTS ON SOME FOREIGN FINANCED INVESTMENT PROJECTS HAVE BEEN OVERESTIMATED BY ABOUT \$50 MILLION, AND TO THE EXTENT THIS IS TRUE THE DEFICIT WOULD BE LOWERED ON BOTH THE FOREIGN FINANCIAL AND THE DOMESTIC COUNTERPART SIDE. THE PROSPECTS, THEREFORE, ARE FOR A DEFICIT ROUGHLY IN THE \$450 MILLION RANGE WITH CENTRAL BANK FINANCING IN EXCESS OF \$100 MILLION.

B. GOB FINANCIAL PROGRAM. THE GOB CABINET HAS APPROVED A FINANCIAL PROGRAM (TABLE II) DESIGNED BY THE CENTRAL BANK WITH THE HELP OF THE IMF IN SUPPORT OF THE BALANCE OF PAYMENTS TARGET. UNDER THIS PROGRAM THE INCREASE IN NET DOMESTIC CREDIT WOULD BE 28 PERCENT (\$184 MILLION) COMPARED TO 34 PERCENT (\$166 MILLION) IN 1977 AND LIQUIDITY IN THE ECONOMY WOULD INCREASE BY 23 PERCENT (\$159 MILLION) COMPARED TO 31 PERCENT (\$164 MILLION) IN 1977. MONEY SUPPLY (M1) WOULD INCREASE BY 19.5 PERCENT AND M2 BY 20.6 PERCENT. ESTIMATED INFLATION

UNDER THIS PROGRAM WOULD BE 17 PERCENT, WHICH, COMBINED WITH A TARGETED REAL GROWTH OF 5 PERCENT, WOULD RAISE NOMINAL GDP BY 23 PERCENT TO \$4.3 BILLION.

THE FISCAL TARGETS ARE TO BE MET MAINLY BY SQUEEZING CREDIT TO THE PRIVATE SECTOR, WHICH WOULD INCREASE BY ONLY 23 PERCENT COMPARED TO 27 PERCENT IN 1977, AND BY INCREASING INCENTIVES FOR SAVINGS, PUTTING SOME RESTRICTIONS ON MONEY CHANGING HOUSES, AND BY REQUIRING ALL FOREIGN EXCHANGE MOVEMENTS TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LA PAZ 02763 02 OF 05 070407Z

PASS THROUGH THE CENTRAL BANK.

THERE IS A DISCREPANCY BETWEEN THE FINANCIAL PROGRAM TARGET OF A NET INCREASE OF \$69 MILLION IN CENTRAL BANK CREDIT AND THE BUDGETARY FIGURES WHICH SHOWS NET CENTRAL BANK FINANCING OF ABOUT \$100 MILLION TO THE PUBLIC SECTOR (INCLUDING TRANSACTIONS WITH FINANCIAL INSTITUTIONS). SUCH FINANCING WOULD RAISE CENTRAL BANK NET CREDIT TO THE PUBLIC SECTOR BY 72 PERCENT AND NET CENTRAL BANK DOMESTIC CREDIT BY 48 PERCENT RATHER THAN THE 30 PERCENT TARGET. WE EXPECT THAT THIS WOULD INCREASE THE MONEY SUPPLY ABOVE THE 20.6 PERCENT M2 TARGET. IN FACT, FINANCE AND PLANNING MINISTRY OFFICIALS HAVE ADVISED US THAT THEY EXPECT INFLATION OF 25-30 PERCENT IN 1978 RATHER THAN THE 17 PERCENT TARGET, APPARENTLY DUE TO THE LARGER INCREASE IN THE MONEY SUPPLY.

C. CONCLUSIONS: THE FINANCIAL PLAN TARGETS ARE UNLIKELY TO BE MET BASED ON THE PRESENTLY PLANNED PUBLIC SECTOR DEFICIT, ITS REQUIREMENT FOR CENTRAL BANK CREDIT BEYOND THAT PROGRAMMED IN THE FINANCIAL PROGRAM, AND FINALLY, THE LIKELIHOOD THAT THE PUBLIC SECTOR DEFICIT WILL BE EVEN HIGHER THAN PROGRAMMED DUE TO FURTHER WAGE INCREASES REQUIRING ADDITIONAL CENTRAL BANK FINANCING.

EVEN IF THE FINANCIAL PROGRAM IS ACHIEVED, IT SEEMS UNLIKELY THAT THE IMPORT GROWTH TARGET OF 5 PERCENT (AN INCREMENT OF ONLY \$32 MILLION) CAN BE ACHIEVED FOR SEVERAL REASONS.

1. WITH A FIXED EXCHANGE RATE THE 23 PERCENT INCREASE IN LIQUIDITY IN THE ECONOMY EQUALS \$159 MILLION. THIS PURCHASING POWER, COMBINED WITH DOMESTIC INFLATION RUNNING OVER 17 PERCENT, WHICH MAKES FOREIGN GOODS RELATIVELY CHEAPER, WILL IMPACT HEAVILY ON IMPORTS. THE 30 PERCENT (164 MILLION) INCREASE IN DOMESTIC LIQUIDITY WHICH OCCURRED IN 1977 WILL ALSO CONTRIBUTE TO SUBSTANTIAL IMPORT GROWTH IN 1978.

2. IF AND AS FOREIGN EXCHANGE RESERVES BEGIN TO FALL AND A DEVALUATION IS ANTICIPATED, IMPORTERS WILL HAVE AN INCENTIVE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 LA PAZ 02763 02 OF 05 070407Z

TO INCREASE IMPORTED STOCKS IN THE HOPE OF WINDFALL GAINS. CONSEQUENTLY, WE THINK IT WILL BE DIFFICULT TO HOLD IMPORTS TO LESS THAN \$750 MILLION UNDER THE FINANCIAL PROGRAM AND TO \$800 MILLION IF THE FINANCIAL PLAN GOALS ARE NOT MET. THE EMBASSY ESTIMATES UNDER EACH CONTINGENCY ARE SHOWN IN COLUMNS C AND D OF TABLE I.

EXPORT ESTIMATES ARE SHOWN IN TABLE III. BOTH WE AND THE GOB ORIGINALLY OVER-ESTIMATED LIKELY PETROLEUM EXPORTS. OUR ESTIMATE SHOWS PETROLEUM EXPORTS OF 5,616,000 BARRELS IN 1978. THE GOB ESTIMATE IS BASED ON 7,448,600 BARRELS. TABLE IV SHOWS EMBASSY PETROLEUM PRODUCTION AND EXPORT ESTIMATES.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 02763 03 OF 05 070556Z
ACTION ARA-14

INFO OCT-01 ISO-00 MMO-01 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 AGRE-00 DOE-15 SOE-02 INT-05 /116 W
-----031157 070704Z /11

R 061430Z APR 78
FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC 221
INFO AMEMBASSY LIMA

LIMITED OFFICIAL USE SECTION 3 OF 5 LA PAZ 2763

OTHERWISE, GOB AND EMBASSY EXPORT ESTIMATES ARE VERY SIMILAR. THE GOB IS NOW AWARE THAT PETROLEUM EXPORTS WILL NOT MEET THE ORIGINAL EXPECTATION, BUT IT HAS NOT YET REVISED THIS IN ITS FORMAL BOP TARGET.

7. IMPACT ON THE BOP CURRENT ACCOUNT: BASED ON THE ABOVE ASSUMPTIONS, WE BELIEVE THE CURRENT ACCOUNT DEFICIT COULD RANGE FROM \$334 TO \$394 MILLION, DEPENDING ON THE ACTUAL INCREASE IN DOMESTIC LIQUIDITY CREATED BY THE PUBLIC SECTOR BUDGET DEFICIT AND THE OUTCOME OF WAGE DEMANDS FROM TEACHERS, MINERS AND OTHERS.

8. CAPITAL ACCOUNT: DETAILED CENTRAL BANK CAPITAL ACCOUNT ESTIMATES ARE CONTAINED IN TABLE V. THE KEY FACTOR IS THE

ESTIMATE OF \$514 IN DISBURSEMENTS TO THE PUBLIC SECTOR (\$44 MILLION TO LOCAL GOVERNMENTS, \$236 MILLION TO THE CENTRAL GOVERNMENT, AND OTHER PUBLIC SECTOR INSTITUTIONS, AND \$234 MILLION TO PUBLIC CORPORATIONS). THAT ESTIMATE IS BASED ON AN IMF ESTIMATE OF \$421 MILLION IN DISBURSEMENTS ON ALREADY ARRANGED EXTERNAL FINANCING PLUS AN INCREASED \$75 MILLION FOR THE GOVERNMENT PETROLEUM CORPORATION (YPFB) AND \$18 MILLION FOR THE MINING CORPORATION (COMIBOL) WHICH HAVE NOT BEEN NEGOTIATED.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 02763 03 OF 05 070556Z

9. SINCE THE CENTRAL BANK ESTIMATE WAS MADE THE YPFB BUDGET HAS BEEN REDUCED SO THAT ONLY ABOUT \$47 MILLION IN EXTERNAL FINANCING HAS NOT BEEN ARRANGED. SECONDLY, THE EMBASSY'S OWN ESTIMATE OF DISBURSEMENTS ON ARRANGED FINANCING IS ABOUT \$50 MILLION LESS THAN THE IMF ESTIMATES. HOWEVER, IN FEBRUARY A DEPOSIT OF \$25 MILLION ON A DEUTSH SUDAMERIKANISH LOAN TO THE BOLIVIAN DEVELOPMENT CORPORATION (FOMENTO) ORIGINALLY PLANNED FOR 1977, WAS MADE TO THE CENTRAL BANK. TAKEN TOGETHER, THIS WOULD REDUCE LIKELY PUBLIC SECTOR CAPITAL DISBURSEMENTS, BASED ON THE PRESENT BUDGET, TO ABOUT \$451 MILLION, OF WHICH ABOUT \$65 MILLION HAS YET TO BE NEGOTIATED. THE GOB IS BEING STRONGLY CRITICIZED BY POLITICAL OPPONENTS OVER THE SIZE OF THE FOREIGN DEBT, AND THEREFORE THE GOB IS MOVING CAUTIOUSLY ON NEW FINANCING. IF WE ACCEPT, HOWEVER, THAT THE ADDITIONAL \$65 MILLION BUDGETED FOR BY YPFB AND COMIBOL WILL MATERIALIZE, THEN WE ESTIMATE NET LONG-TERM CAPITAL INFLOW AT \$340 MILLION.

10. THE LEVEL OF SHORT-TERM CAPITAL OUTFLOW IS MORE DIFFICULT TO GAUGE AND DEPENDS ON LIQUIDITY IN THE ECONOMY (I.E., THE AMOUNT OF FUNDS AVAILABLE TO FLOW OUT), ON POLITICAL UNCERTAINTY AND ON THE PERCEIVED POSSIBILITY OF DEVALUATION. IF A DEVALUATION APPEARS POSSIBLE OR LIKELY TO THE PUBLIC, THEN THERE WILL BE AN INCENTIVE TO PURCHASE DOLLARS AS A HEDGE. SPECULATION AND CAPITAL FLIGHT ARE MOSTLY REFLECTED IN PURCHASES OF DOLLARS FROM THE CENTRAL BANK BY PRIVATE BANKS. THERE HAS BEEN SOME SLOWDOWN OF SUCH PURCHASES SINCE JANUARY 1978.

	JANUARY	FEBRUARY	MARCH 21
NET \$ PURCHASES			
BY PRIVATE BANKS	49.7 MILLION	39.3 MILLION	29.2 MILLION

TOTAL \$ TRANSACTIONS

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LA PAZ 02763 03 OF 05 070556Z

BY CENTRAL BANK - 17.6 MILLION 15.6 MILLION 0.7 MILLION

THE TOTAL TRANSACTIONS DATA FOR FEBRUARY INCLUDE THE \$25 MILLION CREDIT TO CENTRAL BANK FROM THE LOAN TO FOMENTO. WITHOUT THIS "DISBURSEMENT", THERE WOULD HAVE BEEN A \$10 MILLION DEFICIT ON DOLLAR TRANSACTIONS IN FEBRUARY. THE RELATIVELY FAVORABLE SHOWING SO FAR IN MARCH IS MOSTLY THE RESULT OF HIGHER THAN USUAL DOLLAR SALES TO THE CENTRAL BANK BY THE MINING SECTOR, REFLECTING RISING MINERALS PRICES IN LATE 1977 (THERE IS A THREE TO SIX MONTH LAG IN MINERALS RECEIPTS). IN ANY EVENT, THE IMF AND THE CENTRAL BANK APPEAR CONVINCED THAT SHORT-TERM CAPITAL WILL CONTINUE TO FLOW OUT AT A HIGH RATE. THE EMBASSY HAS THEREFORE INCREASED ITS ESTIMATE TO \$150 MILLION UNDER COLUMN C OF TABLE I AND \$175 MILLION UNDER THE HIGHER LIQUIDITY ASSUMPTIONS OF COLUMN D. TABLE VI SUMMARIZES CENTRAL BANK FOREIGN EXCHANGE TRANSACTIONS SINCE JANUARY 1, 1978.

11. THIS LEAVES AN OVERALL BALANCE OF PAYMENTS DEFICIT OF \$159 MILLION UNDER THE ALTERNATIVE IN COLUMN C OF TABLE I AND \$229 MILLION UNDER COLUMN D. CONSEQUENTLY, IN THE ABSENCE OF STRONG MEASURES TO CONTROL IMPORTS AND CAPITAL OUTFLOW, THE GOB WILL HAVE TO ARRANGE ADDITIONAL FINANCING IN THE RANGE OF \$200 MILLION (COLUMN C) TO \$285 MILLION (COLUMN D) TO MAINTAIN ITS FOREIGN EXCHANGE RESERVE POSITION.

12. RESERVES AS AN OBJECTIVE INDICATOR: FINALLY, WE HAVE TO CAVEAT OUR ESTIMATES DUE TO A NUMBER OF DIFFICULT-TO-MEASURE FACTORS--ESPECIALLY CONTRABAND, INCLUDING COCAINE, AND OFFSHORE PRIVATE BANK FINANCING WHICH DOES NOT SHOW UP IN CENTRAL BANK STATISTICS. CONSEQUENTLY, THE BEST CURRENT BOP INDICATOR IS THE MOVEMENT OF FOREIGN EXCHANGE RESERVES. FROM JANUARY 1, 1978 THROUGH MARCH 20 CENTRAL BANK NET RESERVES FELL FROM \$215.9 MILLION TO \$198 MILLION. GROSS RESERVES DECLINED FROM \$233.2 MILLION TO \$210 MILLION. AT THAT NET RATE, RESERVES WILL FALL TO ABOUT \$170 MILLION BY JULY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 LA PAZ 02763 03 OF 05 070556Z

13. WHAT IS THE DANGER POINT? ACCORDING TO LOCAL IMF REPRESENTATIVE, GIVEN THE ENCUMBRANCES ON RESERVES (THIRD-PARTY DEPOSITS, RESERVES IN GOLD, ETC.) RESERVES CANNOT BE ALLOWED TO FALL BELOW \$130 MILLION. THEREFORE, RESERVES COULD THEORETICALLY FALL BY ANOTHER \$70 MILLION BEFORE EITHER A DEVALUATION OR EMERGENCY IMF FUNDING IS REQUIRED. AT THE PRESENT RATE OF DECLINE, THIS LEVEL COULD BE APPROACHED IN SEPTEMBER OR OCTOBER UNLESS ADDITIONAL FINANCING IS ARRANGED. THE IMF REPRESENTATIVE TELLS US THAT HIS STRATEGY IS TO TRY TO HOLD OFF THE NEED FOR EMERGENCY MEASURES UNTIL THE ELECTED GOVERNMENT TAKES OFFICE IN AUGUST. IN THE EMBASSY'S OPINION,

IT WILL BE A VERY TIGHT SITUATION BY THEN.

14. ONE THING THAT WORRIES THE IMF REPRESENTATIVE IS THAT BOLIVIAN PRIVATE BANKS HAVE A DEFICIT FOREIGN RESERVE POSITION OF ABOUT \$60 MILLION. HE IS CONCERNED THAT BANKS WILL TRY TO REDUCE THIS DEFICIT, PURCHASING DOLLARS FROM THE CENTRAL BANK TO DO SO, THUS PRESSING RESERVES. HOWEVER, THE EMBASSY HAS MADE INQUIRIES TO LOCAL BANKS WITH LARGE DEFICIT POSITIONS, AND WITH SEVERAL US CORRESPONDENT BANKS, AND IT DOES NOT APPEAR THAT BANKS INTEND TO REDUCE THEIR DEFICIT POSITION SUBSTANTIALLY DURING 1978. A SIGNIFICANT DETERIORATION IN THE POLITICAL SITUATION COULD, OF COURSE, MOTIVATE FOREIGN BANKS TO REDUCE THEIR LINES OF CREDIT TO BOLIVIAN BANKS.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 02763 04 OF 05 070550Z
ACTION ARA-14

INFO OCT-01 ISO-00 MMO-01 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 AGRE-00 DOE-15 SOE-02 INT-05 /116 W
-----031051 070701Z /11

R 061430Z APR 78
FM AMEMBASSY LA PAZ
TO SECSTATE WASHDC 222
INFO AMEMBASSY LIMA

LIMITED OFFICIAL USE SECTION 4 OF 5 LA PAZ 2763

15. THE EMBASSY WILL TREAT SOME OF THE ADDITIONAL MEASURES THE GOB MIGHT TAKE TO STAVE OFF A BALANCE OF PAYMENTS CRISIS AND THE MANY CONSTRAINTS ON ITS ACTIONS IN A SUBSEQUENT TELEGRAM. IN THE OPINION OF SOME OBSERVERS, HOWEVER, IT IS TOO LATE TO TAKE ACTION TO HOLD DOWN IMPORTS AND CAPITAL OUTFLOW, AND THE ONLY SOLUTION WILL BE FOR INTERIM FINANCING TO GIVE THE NEWLY-ELECTED GOVERNMENT TIME TO TAKE EFFECTIVE MEASURES. IT IS OBVIOUS TO US, HOWEVER, THAT THE NEW GOB WILL FACE A SERIOUS BALANCE OF PAYMENTS PROBLEM ON ASSUMING OFFICE IN AUGUST 1978.

TABLE II
CENTRAL BANK

1978 FINANCIAL PROGRAM
(MILLIONS OF \$US)

TARGETS

1. REAL RATE OF GROWTH IN GDP 5 PERCENT
2. RATE OF INFLATION 17 PERCENT
3. NET INTERNATIONAL RESERVES INCREASE OF \$US
10 MILLION

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 02763 04 OF 05 070550Z

MONETARY PROGRAM FOR THE BANKING SYSTEM

1977	1978	ABSOLUTE	PERCENTAGE
		CHANGE	CHANGE
	1978	1978	

INTERNATIONAL

RESERVES	159.3	169.3	10.0	6
NET DOMESTIC CREDIT	651.5	835.6	184.3	28
1. PUBLIC SECTOR	136.2	190.2	54.0	40
2. PRIVATE	533.5	655.9	122.4	23
3. OTHERS	-18.2	-10.5	7.7	43
FOREIGN RESOURCES	116.8	152.1	35.4	30
DOMESTIC SAVINGS	694.1	852.8	158.8	23

MONETARY PROGRAM FOR THE CENTRAL BANK

INTERNATIONAL

RESERVES	216.5	221.5	5.0	2
NET DOMESTIC CREDIT	233.2	302.2	68.9	30
1. PUBLIC SECTOR	138.4	196.4	58.0	42
2. PRIVATE	-----	-----	-----	--
3. TO BANKS	111.6	118.0	6.4	6
4. OTHER	16.7	12.1	4.6	0
FOREIGN RESOURCES	52.3	52.3	----	16
BANK DEPOSITS	154.8	180.1	25.4	20
COIN AND CURRENCY IN				
CIRCULATION	242.8	291.3	48.6	20

TABLE III

BOLIVIA'S 1978 EXPORTS

COMMODITY	VOLUME	PRICE	CIF VALUE	FOB VALUE
MT	\$MT	\$MILLION	\$ MILLION	

TIN

METALLIC	17500	10582	185.19	181.49
CONCENTRATE	14100	10472	147.65	107.76

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LA PAZ 02763 04 OF 05 070550Z

ANTIMONY

METALLIC	3600	1980	7.13	6.56
CONCENTRATE	10000	1279	12.79	11.25
ZINC	60000	700	42.00	11.96
TUNGSTEN	2900	15255	44.24	29.64
COPPER	3500	1323	4.43	3.02
LEAD	20500	617	12.64	4.04
SILVER	226	44678	32.70	28.45

BISMUTH

METALLIC	520	9480	4.96	4.42
CONCENTRATE	40	9480	0.38	0.26
CADMIUM	90	5952	1.03	0.30

OTHER -----

TOTAL MINERALS 497.64 391.15

LIQUID GAS AND

REFINED PROD. 0.50 0.50

NATURAL GAS

(MCF) 55500 81.09 81.09

PETROLEUM 5616 84.2 84.2

(000 BARRELS)

SUBTOTAL 663.43 556.94

AGRICULTURAL

PRODUCTS 96.10 86.49

CONTRABAND# ----- 13.00

TOTAL 759.5 656.4

SOURCE: EMBASSY ESTIMATES

#NOTE: DOES NOT INCLUDE COCAINE

TABLE IV

1978 PETROLEUM PRODUCTION AND EXPORTS

COMPANY TOTAL

YPFB

32,000 BARRELS/DAY

32,000 X 365 11,680,000

OCCIDENTAL

JAN 1 TO FEB 10 700 B/DAY 28,700

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 LA PAZ 02763 04 OF 05 070550Z

FEB 10 TO APRIL 15 1,500 B/DAY 760,000

SEPT 15 TO DEC 31 10,000 B/DAY 1,170,000

TOTAL 12,008,200

TESORO

MAY 1 TO JUNE 15 600 B/DAY 27,000

JUNE 15 TO OCT 31 1,000 B/DAY 135,000

OCT 31 TO DEC 31 2,000 B/DAY 182,000

TOTAL 344,000

TOTAL PRODUCTION 14,032,200

ESTIMATED CONSUMPTION 1/ 8,416,255

1978 EXPORTS 5,615,945

VALUE - 5,615,945 X \$15/BARREL 84,239,175
 1/ CONSUMPTION ESTIMATED TO INCREASE BY 2.9 PERCENT SAME
 AS IN 1977.
 NOTE: OF OCCIDENTAL TOTAL, 50 PERCENT GOES TO YPFB. OF TESORO
 TOTAL, 60 PERCENT GOES TO YPFB.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LA PAZ 02763 05 OF 05 070647Z
 ACTION ARA-14

INFO OCT-01 ISO-00 MMO-01 SP-02 ICA-11 AID-05 EB-08
 NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
 COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
 LAB-04 SIL-01 AGRE-00 DOE-15 SOE-02 INT-05 /116 W
 -----032016 070702Z /11

R 061430Z APR 78
 FM AMEMBASSY LA PAZ
 TO SECSTATE WASHDC 223
 INFO AMEMBASSY LIMA

LIMITED OFFICIAL USE SECTION 5 OF 5 LA PAZ 2763

TABLE V
 1978 CAPITAL FLOWS
 (MILLIONS OF \$US)

LONG TERM		
CREDITS		
INVESTMENTS OF CAPITAL	6	
UNDISTRIBUTED EARNINGS	2	
PUBLIC SECTOR LOAN DISBURSEMENTS		514
1. LOANS TO LOCAL GOVERNMENTS	44	
2. LOANS TO CENTRAL GOVERNMENT	236	
3. LOANS TO STATE FIRMS	234	
LOANS TO PRIVATE FIRMS	25	
TOTAL	547	
DEBITS		
PUBLIC SECTOR AMORTIZATIONS	116	
1. LOCAL GOVERNMENT	3	
2. CENTRAL GOVERNMENT	47	
3. STATE FIRMS	67	
PRIVATE FIRM AMORTIZATIONS	27	
SUPPORT OF INTERNATIONAL		

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LA PAZ 02763 05 OF 05 070647Z

ORGANIZATIONS 2

TOTAL 145

BALANCE PLUS 402

SHORT TERM

CREDITS

BANK CREDIT TO PRIVATE SECTOR 3

COMMERCIAL CREDIT TO PRIVATE SECTOR 28

TOTAL 31

DEBITS

BANK CREDIT AMORTIZATION 15

COMMERCIAL CREDIT AMORTIZATION 45

US TREASURY HOLDINGS 2

FUNDS OUTSIDE BOLIVIA 144

TOTAL 206

BALANCE -175

TOTAL PLUS 227

TABLE VI

1978 NET FOREIGN EXCHANGE TRANSACTIONS OF THE CENTRAL BANK/1

(MILLION OF \$US)

JANUARY FEBRUARY MARCH/2

ENTITY

PRIVATE COMMERCIAL BANKS -49.7 -39.3 -29.2

YPFB 5.1 3.1 4.4

COMIBOL 7.1 1.9 3.4

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LA PAZ 02763 05 OF 05 070647Z

PRIVATE MINERAL

EXPORTERS 20.7 16.0 20.9

PRIVATE AGRICULTURAL

EXPORTERS 2.1 1.5 2.1

CENTRAL GOVERNMENT - 1.5 - 2.9 - 2.8

OTHER (INCLUDING OTHER

GOVERNMENT INSTITUTIONS

AND PUBLIC CORPORATIONS) - 1.3 35.4/3 1.9

TOTAL -17.6 15.6 0.7

/1 A NEGATIVE FIGURE INDICATES NET SALES OF FOREIGN EXCHANGE
BY THE CENTRAL BANK. A POSITIVE FIGURE INDICATES NET PRUCHASES
FO FOREIGN EXCHANGE BY THE CENTRAL BANK.

/2 THROUGH MARCH 22.

/3 INCLUDES \$25 MILLION DISBURSEMENT OF LOAN TO FOMENTO BY
DEUTSH-SUEDAMERIKANISCHE BANK.

SOURCE: CENTRAL BANK OF BOLIVIA

BOEKER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CERP 0102, ECONOMIC REPORTS, BALANCE OF PAYMENTS DEFICITS, FINANCIAL PROGRAMS, FINANCIAL DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 06 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LAPAZ02763
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780150-0294
Format: TEL
From: LA PAZ
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780486/aaaacvdk.tel
Line Count: 720
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2f935cb5-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 14
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 LA PAZ 1101, 78 LA PAZ 1102, 78 STATE 46664
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3056766
Secure: OPEN
Status: NATIVE
Subject: FURTHER ANALYSIS OF BOLIVIA'S BALANCE OF PAYMENTS PROBLEMS CERP: 0102
TAGS: EFIN, PINT, ECRP, BL
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/2f935cb5-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014